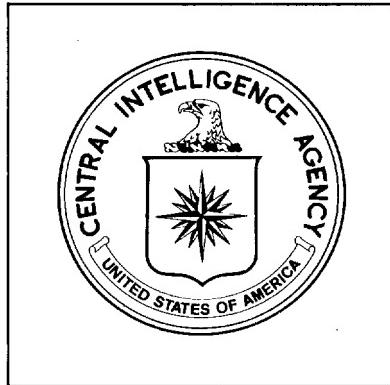


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SOVIET UNION - EASTERN EUROPE

This publication is prepared for regional specialists in the Washington community by the USSR - Eastern Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Romania and Portugal Sign Friendship Treaty

Portugal and Romania signed the first friendship treaty between a NATO and a Warsaw Pact country during the visit to Bucharest of President Costa Gomes from June 13 to 16.

The 13-article document stresses national independence, sovereignty, and similarities between the policies of the signatories and the nonaligned world. It bears a striking resemblance to a treaty signed in late May between Bucharest and Pyongyang, when North Korean party boss Kim Il-song visited Romania.

President Ceausescu heralded the treaty as "the first of its kind between friendly countries that belong to different military blocs." Indeed, the accord is the first between a NATO member and an East European nation since the conclusion of the Balkan Pact between Yugoslavia, Greece, and Turkey in August 1954.

The final communique summarizing the talks points out that Romania and Portugal as developing nations, have much in common. It also stresses the usual themes of the nonaligned countries--the need to overcome the gap between developed and developing nations, concern over de-colonization, and the desirability of a new political and economic order in international relations.

The two sides signed long-term trade, economic, technical, and scientific agreements. In addition, they agreed to establish a joint commission to develop new forms of economic and industrial cooperation.

On the heels of the Gomes visit--on June 17--the Romanian chief of staff, Colonel-General Coman,

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began a six-day visit to Portugal. Coman's trip takes place four months after General Fabiao, his Portuguese counterpart, visited Romania. Fabiao later spoke enthusiastically about his trip, and praised the civic action role of the Romanian army in society. (CONFIDENTIAL)



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~~TOP SECRET UMBRA~~Hungary: Damping Expectations

Party leader Kadar made a strong effort in his election speech last week to prepare the Hungarian people for slower improvements in the standard of living over the next several years.

Kadar frankly acknowledged that "capitalist inflation and the rise in raw material and energy prices" are causing difficult problems and called for more efficient use of raw materials, equipment, and work time. He also emphasized the need for national unity and cooperation between Communists and non-Communists.

He rejected "unrealistic" increases in consumer income and projected annual real income growth at 3-3.5 percent "for the next few years." This figure is about one percent below what Kadar had projected in March. Final projections for the Five Year Plan have apparently not yet been completed.

The party chief appeared to reject any cutback on Western trade, despite Budapest's large trade deficit with the West. He said Hungary carried on one third of its foreign trade with the West "necessarily," and "not as a matter of decision."

In an apparent slap at the Soviets, Kadar failed to give the ritualistic bow to economic aid from Moscow. At the party congress in March--with Brezhnev attending--he had explicitly thanked the USSR and Brezhnev for helping Budapest solve its raw material and energy supply problems. The omission may well be the result of the earlier-than-planned price increases for Soviet raw materials imposed by Moscow, which has compounded Hungary's economic problems. (CONFIDENTIAL)

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Bumper Grain Crop Likely
in Eastern Europe

We estimate that grain production in Eastern Europe--excluding Yugoslavia--will reach 81 million tons this year, compared with 75 million tons in 1974 if favorable weather conditions prevail during the remainder of the growing season and harvest. Grain imports, mostly for feed, will reach 8 million tons in fiscal 1976, only 5 percent less than the previous year.

The southern countries of Bulgaria, Hungary, and Romania--the major grain exporting region--will account for the jump in output. Spring rains relieved drought conditions in Bulgaria and Romania. The soil moisture level is still low in Bulgaria, and normal summer rainfall is needed to push crop yields to near the 1972 record level.

On a visit to Bulgaria in late May, Under Secretary of Agriculture Campbell observed that the important winter wheat crop was in excellent condition, but that the corn was either planted late or stunted by cool weather. Although crop conditions are good in Romania, it is unlikely that this year's ambitious harvest target--20 million tons--will be met. On about the same amount of land, Romania produced a record 17 million tons of grain in 1972.

Crop conditions are also good in Hungary, and we expect that wheat and corn production will match last year's output with a reduction in acreage offset by higher yields. Output of barley and other grains will increase.

Grain production in the northern countries--Czechoslovakia, East Germany, and Poland--will approach last year's record. Last fall's sowing was

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interrupted by heavy rains and as much as 500,000 to 600,000 hectares normally sown with winter wheat had to be sown with lower yielding spring grains. Only East Germany fulfilled its fall sowing plan.

April rains slowed spring planting in Czechoslovakia, but no major problems were reported by East Germany or Poland. To boost production levels in the north and reduce expensive grain imports, meadows, pastures and other marginal land were sown with spring grains, mainly barley. East Germany will harvest its second bumper crop in a row, almost 10 million tons. We expect that the harvest in Czechoslovakia and Poland will fall below last year's level.

The southern countries will export most of their increased output, and the remainder will be used to replenish drought-depleted stocks. Almost all of the 8 million tons of grain that will be imported will go to the northern countries. The main sources of supply will be the Soviet Union and the US. (CONFIDENTIAL)

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